

Message Text

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ACTION SS-25

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P R 011435Z DEC 76
FM AMEMBASSY LAGOS
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INFO AMEMBASSY ALGIERS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY ABU DHABI
AMEMBASSY QUITO
AMEMBASSY TRIPOLI

C O N F I D E N T I A L LAGOS 13525

EXDIS

E.O. 11652: GDS
TAGS:ENRG, PFOR
SUBJECT:OPEC PRICE DECISION

1. ACCOMPANIED BY ECONCOUNSELOR, I CALLED ON PETROLEUM COMMIS-
SIONER BUHARI THIS MORNING TO DISCUSS OPEC OIL PRICE QUESTION.
COMMISSIONER BUTTRESSED BY PERMSEC AWONIYI AND DIRECTOR OF
PETROLEUM RESOURCES MARINHO.

2. I ATTEMPTED TO FOCUS DISCUSSION ON THREE MAJOR AREAS OF
US CONCERN REGARDING ANY SIGNIFICANT NEW OIL PRICES INCREASE.
FIRST, WE FEARED SERIOUS DAMAGE TO FRAGILE WORLD ECONOMIC
RECOVERY NOW SUCCESSFULLY UNDERWAY AFTER PREVIOUS ROUND OF OIL
PRICE ESCALATION HAD CONTRIBUTED TO INFLATION AND RECESSION.
SECONDLY, NON-OIL PRODUCING LESS DEVELOPED COUNTRIES WOULD BE
BADLY HURT BY INCREASED IMPORT COSTS OF BOTH FUEL AND MANU-
FACTURED GOODS. THIRDLY, THE NEW CARTER ADMINISTRATION MIGHT
FIND ITSELF HANDICAPPED IN ITS APPROACHES TO RESOLVING THE
MIDDLE EAST CONFLICT IF STRONG PUBLIC CRITICISM AGAINST
PETROLEUM PRICE INCREASES WERE DIRECTED AGAINST THE ARAB STATES.

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3. PRESENTING AIDE MEMOIRE, I HIGHLIGHTED CERTAIN PORTIONS, E.G., AS RECESSION DEEPENED IN MAJOR INDUSTRIAL COUNTRIES THE VALUA OF NIGERIA'S CRUDE EXPORTS HAD FALLEN, BUT WITH RECOVERY AND THE DAMPING OF INFLATION, OIL EXPORTS HAD SWUNG BACK TO PEAK LEVEL.

4. BUHARI REPLIED THAT OPEC EXPERTS WERE STUDYING ALL ECONOMIC ASPECTS OF THE PRICE ISSUE IN CLOSE DETAIL, COMPUTERIZING ALL PERTINENT INFORMATION. DECISIONS REGARDING PRICE WILL BE BASED ON RESULTS OF RESEARCH STUDY TO BE REVIEWED AT OPEC MEETING. SMALLER CRUDE EXPORTS BY NIGERIA WERE LARGELY DUAITO NIGERIA'S OWN NATURAL RESOURCE CONSERVATION POLICIES, NOT RPT NOT RECESSION IN PURCHASING COUNTRIES. FURTHERMORE, NIGERIA HAD SUFFERED EIGHTY PERCENT INFLATION SINCE THE FIRST ROUND OF OIL PRICE INCREASES, NIGERIA'S CASE BEING WORSE THAN ITS OPEC COLLEAGUES BECAUSE OF PORT CONGESTION. AS TO THE VICTIMIZATION OF LDC COUNTRIES DUE TO OIL PRICE HIKES, OPEC NATIONS HAD ALREADY GIVEN OUT NAIRA 800 MILLION TO OFFSET THEIR BALANCE OF PAYMENTS DIFFICULTIES. OPEC HAD ASKED THAT THE INDUSTRIALIZED COUNTRIES ALSO HELP WITH APPROPRIATE ASSISTANCE BUT THIS AID HAD SO FAR BEEN INADEQUATE.

4. I SAID WE WERE OF COURSE AWARE OF THE MULTILATERAL AND BILATERAL AID EFFORTS OF OPEC COUNTRIES, AMONG OTHERS. IT WAS OUR IMPRESSION THAT AFRICAN STATES WERE DISSATISFIED WITH THE VOLUME OF ASSISTANCE PROVIDED TO DATE BY OIL PRODUCERS AND PARTICULARLY BY ARAB MEMBERS OF OPEC. NEW PRICE ESCALATIION WOULD MEAN THAT ASSISTANCE EFFORTS FROM ALL SOURCES WOULD HAVE TO BE REDOUBLED.

5. BUHARI STATED THAT FMG HAD NOT YET DECIDED ON LEVEL OF PRICE INCREASE IT WOULD SUPPORT. HE WOULD GO TO THE OPEC MEETING TO EXAMINE FACTS, DISCUSS AND THEN DECIDE. THE WRANGLING NOW GOING ON AMONG OIL PRODUCERS WAS UNFORTUNATE; IT WOULD HAVE BEEN BETTER IF EVERYONE HAD WAITED FOR THE OPEC SESSION BEFORE MAKING POLICY STATEMENTS.

6. THE THREE NIGERIANS THEN CITED WHAT TO THEM WAS THE ESSENCE OF THE PROBLEM: OIL PRODUCERS COULD NOT JUSTLY BE ASKED TO HOLD DOWN PRICES IN FACE OF SOARING COSTS OF GOODS AND SERVICES FROM DEVELOPED COUNTRIES. MARINHO ADMITTED THAT IT WAS A "CHICKEN AND EGG SITUATION", DIFFICULT TO DETERMINE WHERE THE BLAME LAY. HE ADDED THAT AMERICAN INDUSTRY, HOWEVER, WAS ALREADY CONFIDENTIAL

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TREATING AN OVERALL OIL PRICE RISE AS A FAIT ACCOMPLI AND WAS ADJUSTING PRICES UPWARD EVEN BEFORE A FORMAL OPEC DECISION. BUHARI AND ANOWIYI COMPLAINED PARTICULARLY BITTERLY ABOUT REPORTEDLY PLANNED INCREASES BY UU STEEL MANUFACTURERS, OBSERVING THAT THE USG MADE NO EFFORT TO INTERVENE WITH AMERICAN INDUSTRY TO HOLD PRICES DOWN. THIS ENCOURAGED "GANGSTERISM" IN RAISING PRICES IN A WAY HARMFUL TO EVERYBODY. OIL STATES WERE ASKED TO MAK A SACRIFICES IN RESTRAINING THEIR PRICES BUT WERE NOT TOLD WHAT THEY

WOULD GET BACK IN RETURN. ACCORDING TO AWONIYI, FOREIGN CONTRACTORS AND SUPPLIERS COME TO NIGERIA AND DEMAND PRICES "THREE TIMES HIGHER" THAN THEY WOULD ASK ELSEWHERE IN THE WORLD FOR THE SAME SERVICES.

6. WE COUNTERED BY ASKING THAT CLOSE ATTENTION BE PAID TO THE TIMING BETWEEN OIL PRICE RISES AND CONSEQUENT PRICE INCREASES FOR MANUFACTURED GOODS AND SERVICES. PRICES FOR THE LATTER WERE SUBSTANTIALLY FORCED UP BY THE COSTLY IMPORTS OF PETROLEUM. MANUFACTURERS WHO APPEARED TO BE ADJUSTING THEIR OWN PRICE STRUCTURES IN THE FACE OF LOOMING OIL PRICE INCREASES DOUBTLESS FELT COMPELLED TO HEDGE AGAINST POTENTIAL HIGHER COSTS. IN CONTRAST TO MINISTRY'S VIEWS, WE SAID USG HAD ACTED ENERGETICALLY TO DISCOURAGE ESCALATION OF PRICES FOR PETROLEUM AND OTHER PRODUCTS IN THE PAST TWO YEARS WITH A RANGE OF MONETARY AND FISCAL MEASURES, ECONOMIC REGULATIONS AND DETERMINED JAWBOINING, USG HAD ALSO TAKEN IMPORTANT STEPS TO ENCOURAGE CONSERVATION AND ALTERNATIVE ENERGY SOURCE DEVELOPMENTS. WE SOUGHT A SOLUTION IN WHICH ALL SIDES WOULD GAIN, NOT LOSE, WANTING TO STRENGTHEN OUR TRADE WITH NIGERIA AND PREVENT GLOBAL ECONOMIC MALAISE.

7. BUHARI CONCLUDED THE MEETING WITH AN EXPRESSION OF APPRECIATION FOR THE FRANKNESS OF OUR EXCHANGES AND A PROMISE TO KEEP OUR VIEWS IN MIND DURING THE UPCOMING OPEC DISCUSSIONS.
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